

Written Testimony on House Bill 327
(Documenting verbal testimony previously given)

Joint Senate and House Commerce Committee

Co-Chairman Senator Gary LeBeau

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Delivered by: Del Merenda
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Position: In opposition to merging Connecticut Innovations (CII) into the Connecticut Development Authority (CDA).

(Note of Clarification)

During testimony, Senator LeBeau asked me if CII was an investor in i-MARK. I answered yes. He also asked if they are current investor. I said yes. To clarify, CII is a current investor in the sense that their money remains invested, since we have yet to execute our exit strategy. However, i-MARK has not accepted nor requested further investment from any investor for just over three years. During this period, we have been operating as a self-sufficient, cash-flow-positive business. We have no pending requests to CII for additional funding, nor are any such requests being contemplated.

Reasons for

Position: Connecticut must help stimulate entrepreneurial innovation that will create new and sustainable businesses and industries with Connecticut-based employees making GDP products and services sold in Connecticut and around the world. I firmly believe that the US economy will otherwise continue to sputter and eventually fail. We have precious few GDP industries left in the US and they are heavily burdened to carry the tax load from all government entities, making them less-and-less competitive, leading to these industries to also being moved off-shore. Our economy is now in serious domino-effect decline and only new and robust industries, based in the USA will save our economy.

Granted, CII will certainly not save the US or the Connecticut economy on its own. However it is a vital source of economic renewal. Contrary to the beliefs of some, in my opinion and experience, Angel Investment Groups (AIGs) are not the answer for entrepreneurs with new business ideas for the following reasons:

1. AIGs rarely fund new ventures at the outset, except for very small amounts of seed cash – often not enough to sustain the venture, even through the proof-of-concept stage.
2. Connecticut-based AIGs are considerably more conservative than AIGs in other active entrepreneurial regions. Historically, when they consider investing substantial funds they invest cautiously – usually in 2nd or 3rd round raises.
3. Though AIGs have focused investment strategies and expertise, they need outside (VC) help to fully qualify a venture for investment and is the reason why few AIGs invest alone in substantial enough sums to launch new ventures.
4. Like VCs, AIGs will want a seat or seats on the venture's board. Unlike VCs, their focus is heavily skewed towards preservation of cash and they are low risk takers when it comes to aggressive venture strategies. Conversely VC board members make their decisions strictly based on the viability of the growth plan and the venture's ability to successfully execute.

Classic venture capital firms are also not an option for most start-ups. Some do offer 'seed funding', but they ask for more flesh than entrepreneurs are willing to give. Right or wrong, that is how they react and their ventures just sputter-along with rare few ever making it on to anyone's radar. However VCs are essential and active in early-stage co-funding and in major infusions in later round financing.

This is where CII comes in as an essential player in revitalizing Connecticut's economy. Their model is duplicated in many US States that implement aggressive economic growth programs (MD, CA, MI, KA, MA), to name a few that I know of. CII staff has valuable and unique experience and skills to evaluate new venture ideas and their human resources, much like a classic VC can do. Their exclusive 'entrepreneurial venture' focus and staffing decisions make this possible. No other CT State agency is equipped to provide this service. If you agree that CT and the USA sorely needs to create new industries and companies in order to grow our economy once again, then CI and its counterparts in other States are vital to the success of this plan.

So, if CII is done away with, there will be no alternate source to fund promising new GDP businesses and industries. If alternately, CII is merged into CDA but remains focused on venture funding, their early-stage ventures do not qualify for any of the other State agencies' services. This negates the need to consolidate. Also, if CII is merged into the CDA culture, CII will not help CT achieve serious sustainable job growth if it is relegated to helping local retail businesses. Regardless of the amount of assistance that retailers and other b2c business now receive, they are closing faster than can be counted. One major cause for this – no GDP jobs, no purchases.

At a time when CT needs to add sustainably-employed taxpayers, CT cannot afford to cut-off or water-down the best source of new economic growth in its arsenal. We can talk about established businesses growing through asset-based lending or getting collateralized loans, but little evidence of CT economic growth as a result, exists. I believe that most these funds are used to keep these businesses barely hanging on. From the evidence, I also believe that incentive programs to get established businesses to relocate to CT have been a complete failure due to CTs well-recognized 'bad-for-business' reputation. Proposed new programs are admirable, but even if they all worked exactly as planned, I believe it will take at least five years before imbedded impressions change and tangible positive economic growth will come from them.

I agree that a well thought-out 'contact Connecticut' portal program should replace the rather ineffective DECD system now in place. It should consist of nothing more than two elements: a call center with well-trained operators who will guide people to the right State agencies, investment-oriented or otherwise (much like the GE info-center model I mentioned); and a highly-effective website with major emphasis on Internet search-engine optimization. The website will be more important to the cause over the next 3 years than the call-center.

I ask that your committee vote to keep CII viable and independent. CII makes money for CT. It is focused on CT's top priority (economic growth). Finally, CII has a successful track record of new venture development, expansion and job creation. In my opinion, if it ain't broke, don't fix it.

Thank you for your attention.